

F&M BANK

"The Right Choice"

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E-mail: Comments@FDIC.gov.
Subject: Docket Number OP-1227
Robert E. Feldman, Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street, NW.,
Washington, DC 20429.

E-mail: regs.comments@federalreserve.gov.
Subject: Docket Number OP-1227
Mail: Jennifer J. Johnson, Secretary, Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551.

Dear Mr. Feldman and Ms. Johnson:

The Interagency Proposal on the Classification of Commercial Credit Exposures is inappropriate for nearly all Iowa state chartered commercial banks. While it is possible to implement this classification scheme in all sizes of institutions, the benefit for small and medium size institutions seems negligible. Our loan officers, senior credit administrators, and senior bank managers are very familiar with classified credits in small and medium sized institutions and are able to analyze both the borrower and collateral using the current system. Iowa Division of Banking examiners discuss classified credits with loan officers and bank managers and have a consistent record of accurately identifying loss exposure.

Implementation of this proposal will produce costs for our bank that will far outweigh the benefits of the proposed classification scheme. Implementation of the proposal will require the us to retool their internal rating systems, credit review procedures and internal reporting systems. Our existing credit rating, review and internal reporting systems adequately identifies credit exposures. Complete retooling of these systems is unnecessary and a waste of our bank's resources.

The retooling of our bank's credit administration systems will include rewriting loan policy and procedures, rewriting allowance for loan loss adequacy methodology, rewriting of loan administration and collection procedures, and retraining of personnel to implement the changes. Our Loan policy will need to be changed to address all of the new terms and nuances generated by the proposal. Credit review procedures will also need to be changed to conform to the new policy. Our methodology for analysis of the adequacy of the reserve for loans and lease losses will need to be changed to conform to the proposed classification of commercial credit exposures. At the same time all these additions to policy and procedures are to be added, the old system of analysis, classification and reporting must be retained for real estate, consumer and other non-commercial extensions of credit.

The examples provided by the proposal clearly demonstrate the additional regulatory burden generated by this proposal. The proposed classification scheme is complicated and burdensome us. It may have some merit for large, complex banking organizations whose management and regulators have little or no contact with loan officers and borrowers and limited knowledge of individual problem credits. Burdening the entire banking industry with this new classification system for commercial credit to satisfy a perceived need at a relatively small number of large, complex institutions seem unreasonable and cost prohibitive.

If the Agencies decide to put additional effort into development of a new classification scheme, they should first perform a cost/benefit analysis on the proposal to determine its value to the industry and regulators. I suggest the proposal should be tested in the largest and most complex banking organizations. If there is some benefit demonstrated throughout an entire business cycle, the proposal might be refined and improved to a degree that its implementation costs could be outweighed by its benefits.

I strongly urge the Agencies to refrain from implementing this proposal. If it is implemented, I urge the Agencies to restrict it to large complex banking organizations. Small and medium sized institutions already bear an excessive amount of regulatory burden imposed by inappropriate and irrelevant federal regulation. There is no valid reason to impose a new commercial loan classification system on banks like ours.

Sincerely,

Michael W. Dunn – President - Cell Phone: 319-350-5056 – E-Mail: bankerdunn@yahoo.com

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